Indian and Northern Affairs Canada
Affaires indiennes et du Nord Canada

Indian Oil and Gas Canada

2006-2007 **Annual Report**

Canada

2008-05895/

Mandate:

To fulfill the Crown's fiduciary and statutory obligations related to the management of oil and gas resources on First Nations lands and to further First Nation initiatives to manage and control their oil and gas resources.

Mission:

To work together with First Nations to manage their oil and gas resources.

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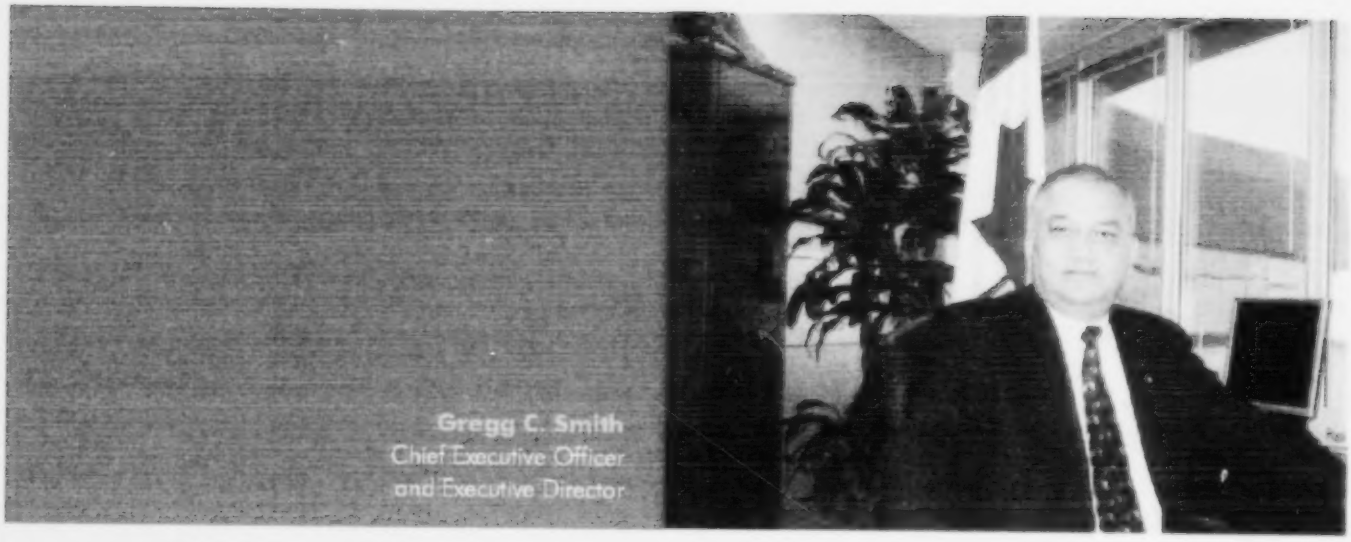

It is my pleasure to report that fiscal year 2006-2007 was another very active year for Indian Oil and Gas Canada (IOGC). With overall unabated industry activity and continuing internal change through IOGC's key initiatives, combined with fixed resources at best, the year demanded focus on the highest priorities.

Industry activity remained high as it has for the past several years. The number of wells drilled on Indian interest lands was 200, the highest level in three years. Compensation and rental moneys collected by IOGC on behalf of First Nations continued to grow, with $14.3 million collected in 2006-2007, $1.6 million more than the previous year. Oil production from First Nation reserve lands and oil royalties collected on behalf of First Nations were both higher than the previous year, with oil royalties increasing $7.0 million to $33.4 million in 2006-2007.

However, the increased moneys collected by IOGC in these areas were more than offset by the decreased gas royalties collected on behalf of First Nations. Fiscal year 2006-2007 saw a 40% drop in the gas royalties collected on behalf of First Nations: in 2005-2006 they totalled $223.4 million, and in 2006-2007 they totalled $133 million. The large drop is mainly attributable to significantly lower gas prices and production. The result is that total moneys collected by IOGC on behalf of First Nations in 2006-2007 were $189.5 million, a 30% drop from the $271.5 million collected in the previous fiscal year.

The overall high level of industry activity over the past few years has resulted in an increasingly tight labour market that has affected virtually every organization in Alberta, Calgary-based IOGC being no exception. Turnover and staffing of several hot industry job areas in particular continue to be

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problematic. As a result of growing human resource issues, IOGC commissioned a study on recruitment and retention that was completed in May 2006. The study resulted in a number of recommendations, some of which have already been implemented. IOGC hopes to see its work on recruitment and retention bear fruit in the near future. In the meantime, IOGC is continuing its work on succession planning, as demographics indicate that future retirements will pose additional challenges.

IOGC also continued work on several multi-year key initiatives that are improving its business processes and benefiting oil and gas First Nations and companies. Progress made on IOGC's key initiatives are included in the ensuing pages.

Progress was also made in supporting the future vision of First Nation control of oil and gas. This vision has two parts: individual First Nation control and collective First Nation institutional control. Supporting the vision for individual First Nation control of oil and gas was the April 1, 2006 coming into force of the *First Nations Oil and Gas and Moneys Management Act* (FNOGMMA), which allows First Nations to assume control and management of their oil and gas resources and monies derived therefrom if their community members so choose. IOGC is working towards implementation of FNOGMMA, as the three participating First Nations are preparing for community ratification votes. During the fiscal year, the *First Nations Oil and Gas and Moneys Management Voting Regulations* were passed, and progress was made on development of the FNOGMMA environmental regulations.

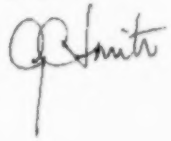
Much of the support for the vision of collective First Nation institutional control of oil and gas is coming from the Indian Resource Council (IRC). The IRC has a multi-avenued approach, including leading changes to the *Indian Oil and Gas Act* and *Regulations*, supporting a continuous legislative/regulatory change process, creating an Energy Business Centre for Excellence and establishing a collective First Nations institution.

IOGC, in partnership with the Indian Resource Council (IRC), was able to resume work on the key initiative, the modernization of the *Indian Oil and Gas Act* and Regulations. A significant amount of work was performed on this key initiative several years ago, but IOGC and Indian and Northern Affairs Canada suspended their work in 2003-2004 to focus departmental resources on the development of both FNOGMMA and the *First Nations Commercial and Industrial Development Act*. In order to retain momentum during that time, the IRC prepared a proposal detailing further changes that went beyond the scope of the modernization. Resolutions passed at subsequent IOGC Co-Management Board and IRC Annual General Meetings directed the IRC to take steps toward First Nations control, effectively to work toward establishing an institution(s) that could fully address the proposal. Committees were established to guide the processes, and they met several times during the year.

Finally, the demands of the previous few years have necessitated the development of a new overarching initiative. Discussion was begun and management agreed to introduce Phoenix in 2007-2008. Phoenix is intended to help IOGC management ensure integration across the organization while progressing on the key initiatives and executing operational duties. It will also help set clear priorities and maintain better focus on those priorities.

I also want to take a moment to honour the continuing social responsibility exercised by IOGC employees. IOGC's 2006 United Way/Health Partners fundraising campaign earned more than $7000, and IOGC staff provided Christmas support to four seniors from the Kerby Centre in its Adopt-a-Family program.

I'd like to close by personally thanking all IOGC staff for their efforts during these challenging times.



Chief Executive Officer
and Executive Director

Corporate Evolution

The Government of Canada has a broad mandate relating to Indian and Inuit Affairs and Northern Affairs which is derived largely from existing legislation and legal obligations arising from section 91(24) of the *Constitution Act, 1867*. The Department of Indian Affairs and Northern Development is entrusted with fulfilling various legal obligations of the federal government to Aboriginal peoples as outlined in Treaties, the *Indian Act* and other legislation. Included in this obligation is the management of natural resources on Indian lands, including oil and gas.

Oil and gas development on First Nation reserve lands has been regulated since 1916 under the *Indian Act*. In 1974, due to the sharp increase in oil and gas activities on First Nation lands, the *Indian Oil and Gas Act* was passed, followed in 1977 by the *Indian Oil and Gas Regulations*. In 1987, Indian Oil and Gas Canada was established, replacing Indian Minerals West, as a dedicated branch within the Department of Indian Affairs and Northern Development to manage oil and gas development and to further First Nation initiatives to manage and control their resources. In 1993 Indian Oil and Gas Canada was affirmed as a Special Operating Agency to increase its flexibility and responsiveness to both industry and First Nation needs.

Statutory Authorities

IOGC operates in accordance with provisions of the:

- *Indian Oil and Gas Act*
- *Indian Oil and Gas Regulations, 1995*

IOGC also operates in accordance with associated federal legislation including provisions of:

- The *Indian Act*
- The *Canadian Environmental Assessment Act*
- Other relevant legislation

IOGC Co-Management Board

Indian Oil and Gas Canada (IOGC) operates under the direction of a Chief Executive Officer/Executive Director who participates as a member of the Board of Directors. The Board was established in 1996 by the signing of a Memorandum of Understanding (MOU) between the Minister of Indian Affairs and the Indian Resource Council (IRC) to co-manage IOGC operations. The Board focuses on areas of collective interest such as IOGC issues, policies, plans, priorities and resources.

There are nine members on the Board, six of whom are appointed by the IRC and three by the Crown. Two Board members serve as co-chairs, the Chairman of the IRC and the Assistant Deputy Minister, Lands and Trust Services, Indian and Northern Affairs Canada. At the end of the fiscal year, the co-chairs were Councillor Ben Ground of the Enoch Cree Nation in Alberta, Chairman of the IRC and Ms. Caroline Davis, the Assistant Deputy Minister.

Indian Resource Council

A representative voice for over 130 First Nations with oil and gas interests, the Indian Resource Council (IRC) works with and provides assistance to First Nation governments, businesses and individuals hoping to take advantage of business and employment opportunities within the oil and gas industry.

In 1987, when the IRC came into being, it existed first and foremost to watch over Indian Oil and Gas Canada. During the ensuing years, this has changed. The mandate broadened and the IRC realized it could have greater impact, that it could fill other niches. The IRC was given responsibility to begin finding ways and means to build capacity in terms of First Nation governments and business entities so they would have the knowledge necessary to carry on managing the regulatory and business end of oil and gas. Ultimately the IRC helps bridge the way to opportunity for First Nations and their people for greater economic self-reliance through increased management of resources on reserve and traditional lands. The IRC is involved in the development and implementation of employment and training programs and the creation of alliances between First Nations and the oil and gas sector.

The work of the IRC is guided by basic principles of:

- Supporting member First Nations in their efforts to attain full management and control of their oil and gas resources
- Ensuring the preservation of federal responsibilities established under Treaties with First Nations
- Coordinating the promotion of initiatives with the federal and provincial governments, industry and other groups to enhance economic benefits realized by First Nations from resource development.
- Encouraging greater development and utilization of First Nations human resources

The IRC is headed by President/CEO Mr. Roy Fox reporting to a Board of Directors. The IRC Board consists of First Nation elected leaders from Alberta, British Columbia, Ontario, Saskatchewan and New Brunswick. The current chairman is Councillor Ben Ground of the Enoch Cree Nation in Alberta.

For more information, visit the IRC's Web site at www.IndianResourceCouncil.ca (available only in English).

Key Initiative

First Nations Oil and Gas Management

Background

The First Nations Oil and Gas and Moneys Management Initiative, also known as the Pilot Project, was launched in 1994 with the aim of enabling several interested First Nations to assume control and management of their oil and gas resources. Over the past decade, the Blood Tribe, Siksika Nation and White Bear First Nation have each worked closely with IOGC to develop their capacity in order to assume the control and management of their oil and gas resources.

During capacity development, key findings and complex issues which arose indicated that if the complete transfer of oil and gas resource management to First Nations was to be successful, new enabling legislation would be needed. The three First Nations have been full participants in the design of the two-part optional legislation, the *First Nations Oil and Gas and Moneys Management Act* (FNOGMMA).

The first part of FNOGMMA enables a First Nation to assume the management and control of oil and gas exploration and development currently carried out on its behalf by IOGC, plus control of the future moneys generated by the oil and gas. The second part enables a First Nation to receive and manage all moneys that are held or that otherwise would be held on its behalf by Canada in its Consolidated Revenue Fund. A First Nation may opt into either one or both of the parts.

There are two sets of regulations needed to establish rules and procedures for FNOGMMA implementation. Voting regulations relate to conducting a First Nation membership vote and to Canada's authorization of a First Nation's opting-in to FNOGMMA. Environmental regulations relate to conducting environmental assessments on reserve lands subject to FNOGMMA.

Status

FNOGMMA, which received royal assent on November 25, 2005, came into force on April 1, 2006. During fiscal year 2006-2007, the *First Nations Oil and Gas and Moneys Management Voting Regulations* were issued. Additionally, the *First Nations Oil and Gas Environmental Assessment Regulations* were drafted and were scheduled for a 30-day pre-publication period in the Canada Gazette in the spring of 2007. Pre-publication is standard for proposed regulations and gives the public an opportunity to express its concerns.

The three pilot First Nations intend to hold their FNOGMMA ratification votes in fiscal year 2007-2008. If their membership votes in favour of opting into FNOGMMA, these First Nations should take full management and control of their oil and gas beginning the following year.

IOGC is in the process of developing entrance criteria and a FNOGMMA implementation policy, which will allow other qualified First Nations to opt into the legislation.

Key Initiative

Modernization of the *Indian Oil and Gas Act*

Fiscal year 2006-2007 saw the re-commencement, in partnership with the Indian Resource Council (IRC), of the initiative to modernize the *Indian Oil and Gas Act* and Regulations. The proposed changes are broad and comprehensive and address the immediate needs of day to day management of First Nation oil and gas resources. Direct consultations with a majority of the oil and gas producing First Nations assisted in the development of proposed amendments.

In August 2006, the IRC and many of its member First Nations, along with representatives of IOGC and INAC, got together to establish three joint committees to oversee and guide the process. A Steering Committee was established to provide overall direction and includes senior level representatives from both First Nations and Canada. Two Joint Technical Committees (JTC) were also established and perform very different functions. The JTC #1 is directly involved in the process to draft the changes to the *Indian Oil and Gas Act* and *Regulations*. This committee will work within the federal legislative process to receive drafts of the legislation and provide comments. It will also perform this function in the drafting of the regulations. The JTC #2 will mainly operate at the strategic level, looking at options related to transforming IOGC into a First Nations institution, among other things. This committee will also be looking at oil and gas and governance issues that fall outside the scope of the JTC #1, as a basis for a continuous change process to the *Indian Oil and Gas Act* and *Regulations*.

Work in the 2006-2007 fiscal year focused on re-acquainting all committee members with the proposed change package and providing input to Canada in the documents that formed the basis for a cabinet submission.

Key Initiative

Royalty with Certainty

Background

The Royalty with Certainty project involves exploring options to simplify IOGC's negotiated royalties.

Over the past number of years, IOGC's negotiated royalties reflected First Nations' wishes for more active involvement as the oil and gas business evolved. Consequently, a highly complex system of royalties using a wide variety of defined values came to exist. Some of these defined values are not known at the time royalties are due to be paid, so IOGC began accepting estimated values and payments and performed recalculations and adjustments in later months once actual values were known. Given that the actual values are often not all known at once, there can be several recalculations of royalties and a significant amount of time elapsed from the time the royalties were initially due to when payment is complete and accurate.

These adjustments result in overpayments and underpayments to the First Nation, increasing the administrative burden for IOGC, First Nations and companies.

Status

The project is comprised of a four phase work plan. The first two phases of the project are completed: publicly available price markers for natural gas and for products that result in no loss of royalties to First Nations have been developed. These price markers are used in most new agreements and also in amendments to existing agreements when the lessee and First Nation are interested.

For phase three, a consultant has completed a study of IOGC's gas cost allowance and has made recommendations for simplifying it. Regarding phase four, a consultant has also completed a study of IOGC's royalty structures and has proposed a standard royalty structure. IOGC will be reviewing the recommendations contained in the studies and deciding on the next step of incorporating the recommendations in future negotiations for new agreements.

Key Initiative

Streamlining the Royalty Process

Background

The main goal of the project to streamline the royalty process is to ensure that the royalties collected on behalf of First Nations are as accurate and timely as is reasonably possible. The project also supports the automatic calculation of interest and involves extensive changes to current royalty processes. It includes taking advantage of the technology available for electronic submission of information over the Internet.

IOGC's royalty processes were reviewed in fiscal year 2003-2004. By June 2004, IOGC had developed a new business model with revised business rules, procedures and processes including electronic submission. An implementation plan, complete with process training documentation and change management considerations, was developed as of March 2005.

Status

IOGC developed a system to receive electronic submissions of royalty data that went live on April 25, 2005. Companies use the system to submit electronic royalty data and copies of backup documentation for pricing and volumes, enabling them to fulfill their data submission requirements via the Internet.

In support of the related key initiative Automation of Interest with Accounts Receivable System, a billing project for calendar years 2004 and 2005 was initiated. The project involves sending billing packages, each based on a company's royalty reporting activities for January 2004 through December 2005 for an individual Indian reserve. Ultimately, a monthly report summarizing royalty activity and any related interest charges will be developed and sent to companies.

Additionally, a Gas Cost Allowance User Guide was published along with four gas cost allowance forms, all available on IOGC's Web site. In the future it is planned that gas cost allowance applications will be able to be sent electronically over the Internet.

Throughout the project, information letters have been distributed to update industry on the changes and on modifications to their reporting requirements. The information letters and an Electronic Submission User Guide are available on IOGC's Web site.

Key Initiative

Automation of Interest with Accounts Receivable System

Background

Indian Oil and Gas Canada (IOGC) collects moneys on behalf of First Nations relating to the exploration and production of their oil and gas. Moneys collected fall into the broad categories of land and royalty, with land moneys including things such as bonuses, initial considerations and annual rentals. Royalty moneys are collected on the production of First Nation oil, gas and gas products.

Interest has been collected on late moneys by preparing letters advising companies of outstanding amounts and interest required pursuant to the *Interest and Administrative Charges Regulations*.

IOGC is automating the collection of interest on the late payments of these First Nation trust funds by implementing an accounts receivable system within IOGC's Resource Information Management System (RIMS). Once complete, monthly receivable statements for land and royalty will be generated automatically and sent to companies. A separate statement will also be provided to First Nations. The project is split into two phases, land development and royalty development.

Status

The development of the land statement system was completed and monthly distribution of land statements commenced in May 2006. As a result of the implementation, there has been an increase in compliance with payments generally being made ahead of time. The number of late land payments has been reduced from 30% to 2% with a corresponding 45% reduction in late dollar amounts, which are now approximately 1%. The overall response from companies to this initiative has been positive.

Work has also commenced on the royalty development phase of the project.

Spotlight:
First Nation-owned Oil and Gas Companies

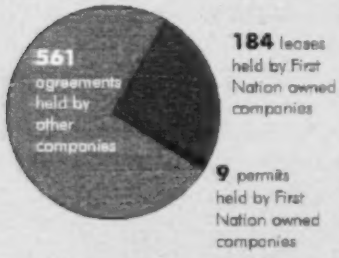
Many First Nations have created their own oil and gas companies as a way to become more involved in the industry and to potentially reap more rewards than by passively collecting royalties.

At the end of fiscal year 2006-2007, First Nations in Alberta and Saskatchewan owned 19 oil and gas companies with subsurface agreements on Indian reserve lands. Typically, these First Nation-owned oil and gas companies hold leases on their own First Nation's lands and do not operate, but joint venture with operating oil and gas companies.

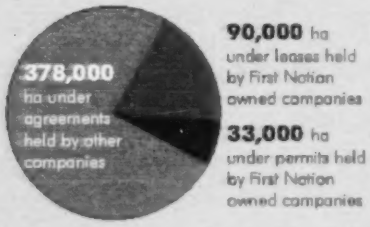
During the year, 53 wells were drilled on the subsurface agreements held by First Nation-owned companies, representing 27 percent of the total wells drilled on all First Nations' reserve lands.

2006-2007 Fiscal Year End Snapshot

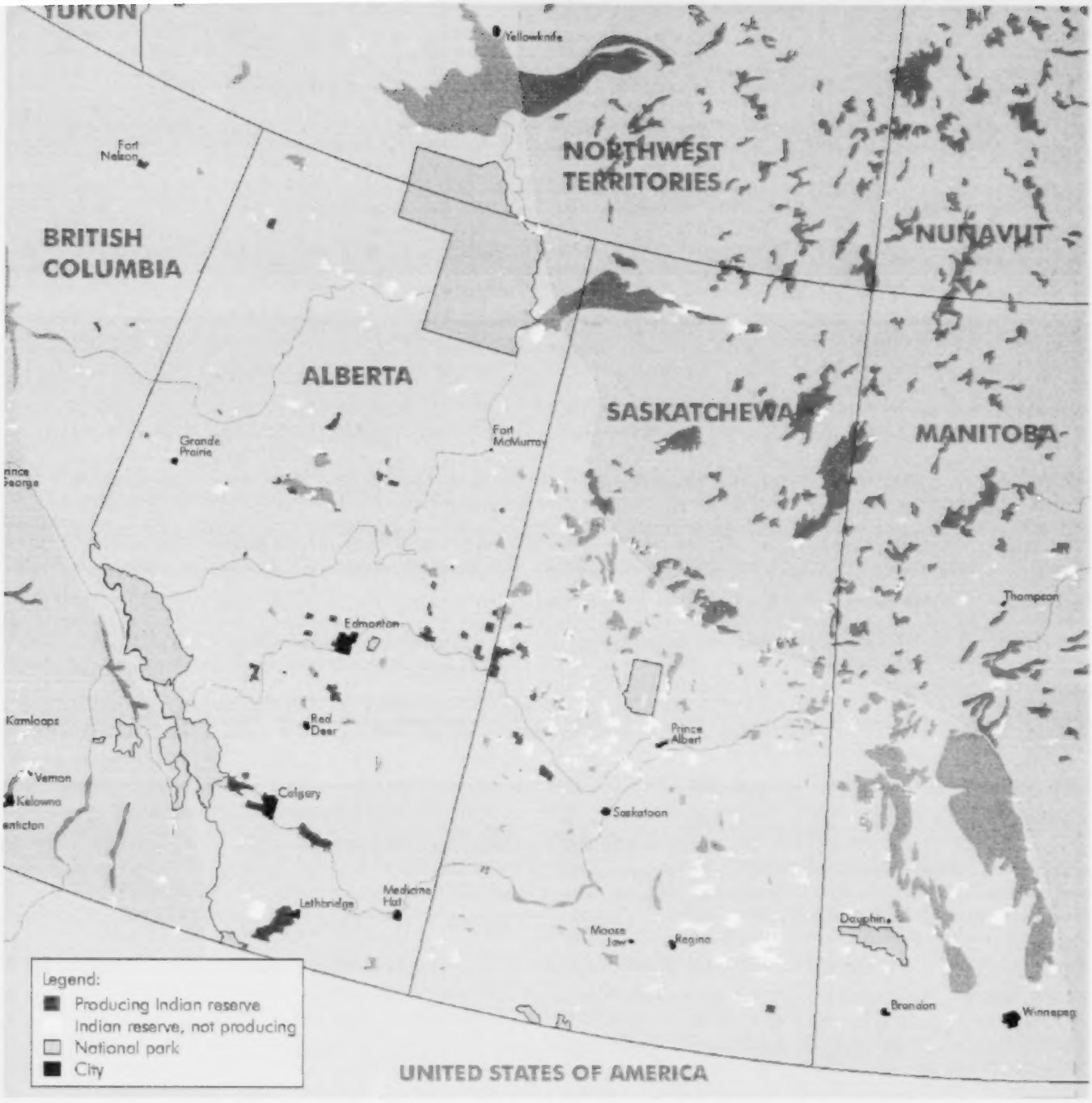
Subsurface Agreements


561 agreements held by other companies
184 leases held by First Nation owned companies
9 permits held by First Nation owned companies

Area of Subsurface Agreements
(hectares)


378,000 ha under agreements held by other companies
90,000 ha under leases held by First Nation owned companies
33,000 ha under permits held by First Nation owned companies

	Alberta	Sask.	Total
Number of First Nation-owned companies	15	4	19
Number of subsurface agreements	130	63	193
Area of subsurface agreements (hectares)	97,000	26,000	123,000



Map of Western Canada Sedimentary Basin Showing Indian Reserves Producing Oil and/or Gas

The Western Canada Sedimentary Basin is the most prolific hydrocarbon region of Canada, accounting for the vast majority of crude oil and natural gas. The map shows the approximate boundaries of the Western Canada Sedimentary Basin.

Areas within the Basin have the potential for production. Areas outside the Basin have no potential now or in the foreseeable future.

First Nation-owned Oil and Gas Companies

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During the year, 53 wells were drilled on the subsurface agreements held by First Nation-owned companies, representing 5% percent of the total wells drilled on all First Nations reserve lands.

2006-2007 Fiscal Year End Snapshot

Subsurface Agreements

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9 permits held by First Nation owned companies

Area of Subsurface Agreements
(hectares)

90,000 ha under leases held by First Nation owned companies

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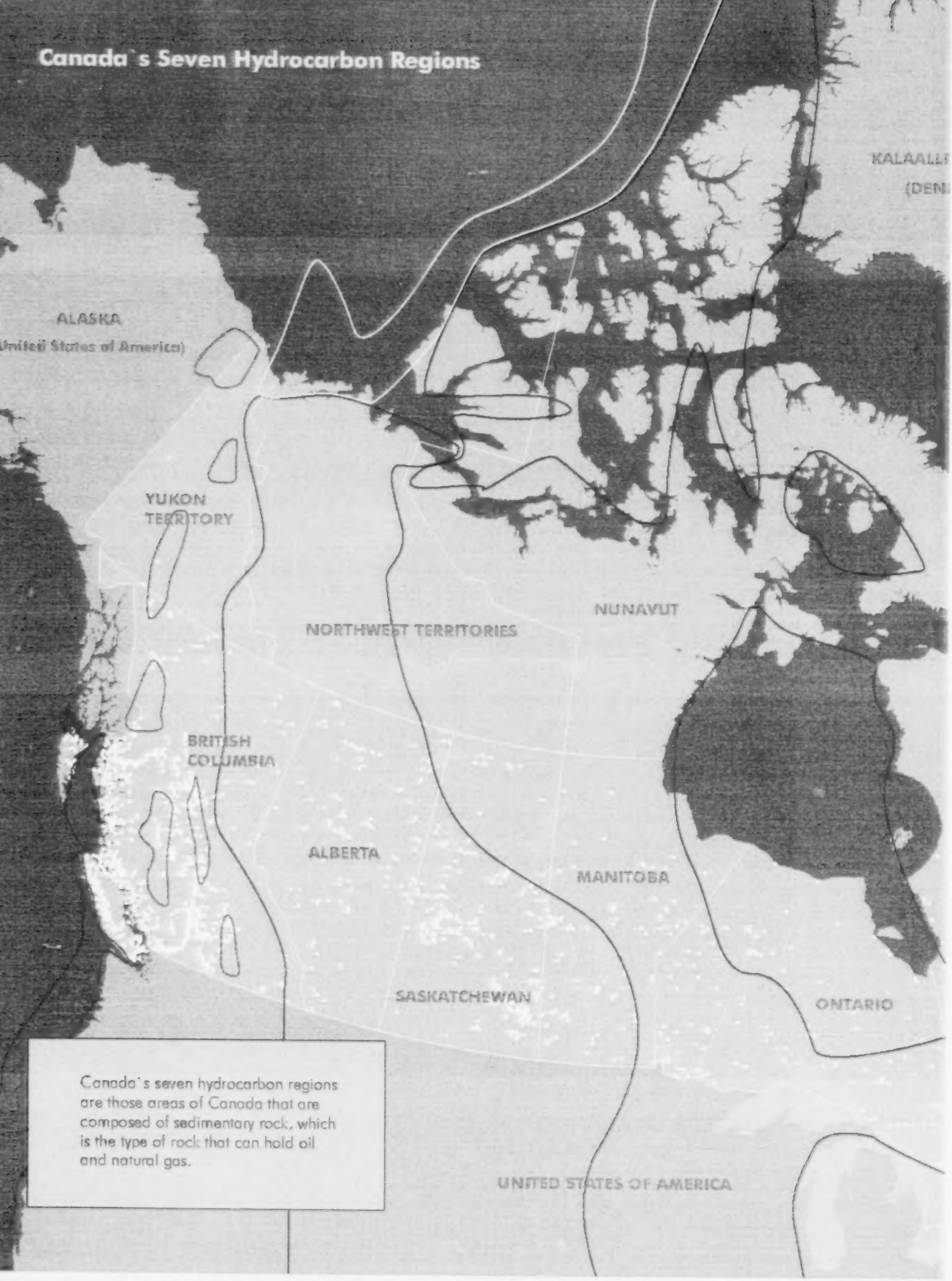
The Western Canada Sedimentary Basin is the most significant hydrocarbon region of Canada, accounting for the vast majority of crude oil and natural gas. The map shows the approximate boundaries of the Western Canada Sedimentary Basin.

Areas within the Basin have the potential for undiscovered oil and gas. Areas outside the Basin have not yet been explored or have been explored but found to contain no oil and gas.


Canada's Seven Hydrocarbon Regions
ALASKA
(United States of America)
YUKON TERRITORY
NORTHWEST TERRITORIES
NUNAVUT
BRITISH COLUMBIA
ALBERTA
SASKATCHEWAN
MANITOBA
ONTARIO
UNITED STATES OF AMERICA
Canada's seven hydrocarbon regions are those areas of Canada that are composed of sedimentary rock, which is the type of rock that can hold oil and natural gas.

Legend
Pacific Margin
Intermontane
Western Canada Sedimentary Basin
Arctic Margin
Arctic Cratonic
Eastern Cratonic
Atlantic Margin
NEWFOUNDLAND AND LABRADOR
QUEBEC
P.E.I.
NEW BRUNSWICK
NOVA SCOTIA
Indian reserve

Canada's Seven Hydrocarbon Regions

Legend
Pacific Margin
Intermontane
Western Canada Sedimentary Basin
Arctic Margin
Arctic Cratonic
Eastern Cratonic
Atlantic Margin

Operations

Indian Oil and Gas Canada has four distinct units that regulate the exploration and development of First Nations oil and gas resources. Executive Unit is accountable for overall agency planning and direction, consultation, policy development, pilot project management, communications and overall executive and legal services. Land Unit issues and administers agreements on First Nations lands. Production Unit monitors production from First Nation lands and ensures the accurate collection of royalties. Planning and Corporate Services Unit is responsible for corporate planning, finance, administration and human resources.

Executive

The Executive Unit, headed by the Chief Executive Officer, focuses on:

- Setting corporate direction and strategy
- Implementation of directives of the IOGC Board of Directors
- Operational policy development (including legislative/regulatory amendments) and consultation
- Communications and corporate executive services
- Management of the pilot project

Operational Policy Group Functions

- Support of operational policy development
- Support of new legislation, specifically the *First Nations Oil and Gas and Moneys Management Act*
- Advancing proposed changes to the *Indian Oil and Gas Act* and *Indian Oil and Gas Regulations, 1995*
- Involving key parties to obtain input in the above

Pilot Initiative Group

- Management and support of the First Nations Oil and Gas Management Initiative, referred to as the "Pilot Project"
- Liaising between IOGC and the pilot First Nations and with other areas of government
- Leading of consultation sessions necessary to progress on the initiative

Communications/Executive Services Functions

- Disseminating information to First Nations, oil and gas industry companies, the public and government
- Development of corporate communications strategies regarding IOGC issues that have the potential to impact First Nations or the private sector
- Development and preparation of briefings on IOGC issues for senior DIAND/IOGC officials and the minister
- Preparation of communications plans, strategies, reports (including the Annual Report) and correspondence on IOGC activity
- Maintenance of IOGC's Web site, www.iogc.gc.ca

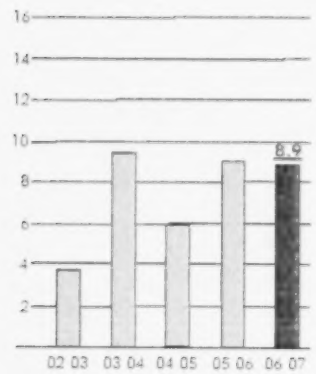
During fiscal year 2006-2007, IOGC implemented a Web content management system that allows the Communications group to update and change IOGC's Web site directly, rather than sending change requests to IT for completion.

The group also developed several publications in support of IOGC's recruitment and retention strategy.

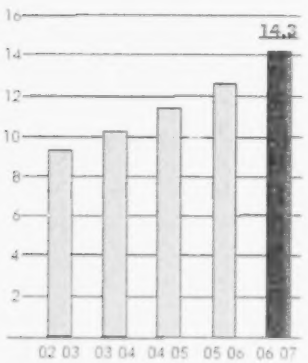
Land

The Land Unit contains three groups: Negotiations and Subsurface Land Contracts and Administration; Environment; and Research and Surface Land.

Bonus Moneys Collected on Behalf of First Nations ($ millions)



Compensation and Rental Moneys Collected on Behalf of First Nations ($ millions)



Negotiations and Subsurface Land Contracts Group

- Identifying, developing and promoting disposition options with First Nations to promote and increase exploration and development of First Nations oil and gas resources
- Assessing proposals by interested companies against IOGC's disposition policy
- Assisting First Nations in reaching agreements with companies by providing negotiation and facilitation expertise to support the negotiation process
- Providing information concerning subsurface leasing trends, sales prices and related policies to all interested stakeholders
- Providing advice to Treaty Land Entitlement (TLE) First Nations, and working together with various federal and provincial government departments and industry to facilitate the implementation of the TLE process

In fiscal year 2006-2007, there were 26 negotiated subsurface agreements (Permits and Leases) initiated, with an associated area of 37,000 hectares. There were also 17 negotiated amendments to existing subsurface agreements initiated during the year. Approximately 20 negotiations were still ongoing at the end of the fiscal year.

The above negotiations resulted in the collection by IOGC of almost $9 million in bonus moneys on behalf of First Nations during the fiscal year.

The negotiations staff was also actively involved in IOGC's Royalty with Certainty key initiative, which is tasked with exploring options to simplify IOGC's negotiated royalties. Additionally, the group assisted the FNOGMMA First Nations in their preparation for the potential transfer of oil and gas management and control from IOGC to these First Nations. The group also continues to work on solutions to handle the increasing work load from high volumes of regular operations as well as increasing TLE roles and responsibilities.

Operations

Indian Oil and Gas Canada has four distinct units that regulate the exploration and development of First Nations oil and gas resources. Executive Unit is accountable for overall agency planning and direction, consultation, policy development, pilot project management, communications and overall executive and legal services. Land Unit issues and administers agreements on First Nations lands. Production Unit monitors production from First Nation lands and ensures the accurate collection of royalties. Planning and Corporate Services Unit is responsible for corporate planning, finance, administration and human resources.

Executive

The Executive unit, headed by the Chief Executive Officer, focuses on:

- Setting corporate direction and strategy
- Implementation of directives of the IOGC Board of Directors
- Operational policy development (including regulatory regulation amendments and consultation)
- Communications and corporate executive services
- Management of the pilot project

- Support of operational policy development
- Support of new legislation specific to the First Nations Oil and Gas and Moneys Management Act
- Researching proposed changes to the Indian Oil and Gas Act and Indian Oil and Gas Regulations, 1995
- Working with parties to obtain input to the review

- Management and support of the First Nations Oil and Gas Management Institute related to the Pilot Project

- Liaising between IOGC and the oil & gas First Nations and with other areas of government
- Leading of consultation sessions as necessary on progress on the initiative

- Disseminating information to First Nations oil and gas industry companies, the public and government
- Development of corporate communications strategies regarding IOGC issues that have the potential to impact First Nations or the private sector
- Development and production of briefings on IOGC issues for senior DIAND, IOGC officials and the minister
- Preparation of communications and issue strategies, reports and notes for the annual Report and correspondence on IOGC issues
- Maintenance of IOGC's Web site www.iogc.gc.ca

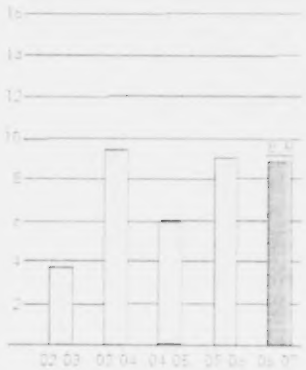
During fiscal year 2006-2007, IOGC implemented a new content management system that allows the creation of new pages for each and every IOGC Web site. It also has enhanced search capabilities to help users find information more quickly.

The group also undertook [illegible] publication of IOGC's annual report and several other publications.

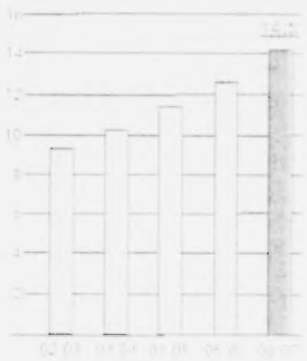
Land

The Land Unit contains three groups: Negotiations and Subsurface Land Contracts and Administration; Environment; and Research and Surface Land.

Bonus Moneys Collected on Behalf of First Nations ($ millions)



Compensation and Rental Moneys Collected on Behalf of First Nations ($ millions)



- Identifying, developing and promoting economic options with First Nations to promote and increase exploration and development of First Nations oil and gas resources;
- Assessing proposals on potential contribution against OGCC's application policy;
- Assisting First Nations in securing agreements with companies on surveying, negotiations and consultation expertise to support the regional projects;
- Providing information concerning subsurface mineral rights, land grants and related policies to interested companies;
- Providing advice to Treaty Land Entitlement First Nations and working together with various federal and provincial government departments and industry to facilitate the implementation of the TLE process.

In fiscal year 2006-2007, there were 26 negotiated subsurface agreements (permits and leases) entered with an associated area of 37,000 hectares. There were also 17 negotiated amendments to existing subsurface agreements entered during the year. Approximately 70 negotiations were still ongoing at the end of the fiscal year.

The above negotiations resulted in the generation of OGCC of almost $7 million in bonus moneys on behalf of First Nations during the fiscal year.

The negotiations staff was also very involved in OGCC's liaison with Canada on oil and gas issues, which ranged from assisting officials to support OGCC's negotiated royalty structure, the group assisted the [illegible] First Nations in their preparation for the potential acquisition of oil and gas management and [illegible] from OGCC to [illegible] First Nations. The group also participated with [illegible] issues related to the [illegible] with respect to [illegible] as well as increasing [illegible] and resources for [illegible].

- Drafting and ensuring the execution of oil and gas agreements and amendments in accordance with negotiated terms and conditions and with federal government regulations
- Monitoring and verifying contractual commitments
- Administering subsurface oil and gas agreements throughout their lives, including handling financial commitments (excluding royalties) and First Nation suspense accounts

During fiscal year 2006-2007, the subsurface land contracts and administration staff handled 17 amendments to subsurface agreements and issued 29 negotiated subsurface agreements. The group also processed 23 lease selections, when grantees selected permit areas to convert to leases. A permit gives a grantee the right to explore for but not produce oil and gas, while a lease gives the grantee the right to produce. The group handled 166 lease continuances (standard leases have terms of five years). There were 64 agreements that expired or otherwise terminated. At year end, staff was administering about 750 subsurface agreements with an associated total area of 500,000 hectares, compared to about 770 agreements and 590,000 hectares at the end of the previous year.

Staff also issued 7 Directions to Comply during the year. Pursuant to the *Indian Oil and Gas Regulations, 1995*, IOGC may issue a Direction to Comply when a contract holder has not paid an amount due under the contract, such as rentals, or has failed to comply with specific terms in the contract or with the *Indian Oil and Gas Regulations, 1995*. Staff also handled 75 assignments of contracts from one company to another, company name changes/amalgamations affecting 527 agreements and company address changes affecting 452 agreements.

The subsurface Land Contracts and Administration staff continues to be actively involved in two key initiatives, Automation of Interest with Accounts Receivable System, and the implementation of FNOGMMA in the form of assisting the FNOGMMA First Nations.

Environment Group Functions

- Ensuring all proposed oil and gas surface facilities and activities, including seismic and construction of surface leases, access roads and pipeline rights-of-way, undergo an environmental assessment or screening as required by the *Canadian Environmental Assessment Act* (CEAA)
- Reviewing all environmental assessments to ensure potential environmental effects are mitigated
- Imposing environmental protection terms so that oil and gas companies comply with federal and provincial legislation
- Performing field inspections and reviewing environmental audits of surface facilities to monitor industry compliance with the environmental terms of surface agreements
- Providing information and assistance to First Nations, industry representatives and other stakeholders
- Ensuring the adequacy of reclamations prior to the surrender of surface agreements

During fiscal year 2006-2007, environmental staff initiated 240 environmental assessments pursuant to CEAA. Staff also conducted field visits for compliance and reclamation inspections, as well as pre-construction site visits.

The environment group updated its procedures: Reclamation and Surrender of Surface Agreements; and Environmental Audit Requirements. It also developed the Wellsite Reclamation Application Form and the Detailed Site Assessment Form. These procedures and forms are available on IOGC's Web site at www.iogc.gc.ca. The CEAA terms letter templates were also revamped and updated.

The unit's next focuses will be to continue to update and develop information letters and procedures, and to progress further with wellsite reclamation.

IOGC was also fortunate to host the first-ever Environmental Stewardship Steering Committee (ESSC) on February 27, 2007. The ESSC is a committee of Indian and Northern Affairs Canada (INAC) with a goal to develop and promote the integration of best practices in environmental management into the planning and decision-making of all sectors' activities occurring on First Nations and Inuit lands. Members are from different sectors and regions within INAC. The ESSC meeting was followed by a two-day Regional Environmental Managers meeting at IOGC offices.

- Drafting and ensuring the execution of all surface agreements in accordance with negotiated terms and conditions and federal government regulations
- Administering all surface agreements throughout the life of the agreement, including financial commitments, rent reviews, assignments and surrenders
- Training and working together with First Nations and industry regarding surface dispositions

During the year, the surface staff initiated 271 surface agreements. These included 179 surface leases, generally to drill wells, 80 rights of way to install pipelines and 12 exploratory licences to shoot seismic. At the end of fiscal year 2006-2007, the surface staff was administering 4,009 active and pending surface agreements and 24 exploratory licences, including 2,753 surface leases. This compares to managing 3,797 agreements including 2,556 surface leases at the end of the previous fiscal year.

- Verifying legal title and status of minerals for surrendered and designated Indian reserve lands prior to disposition
- Verifying legal title and acreage leased by all parties (this may entail review of title for non-reserve lands) to determine the First Nation interest for pooling purposes and to ensure the production spacing unit is complete
- Providing mineral title status of Indian reserve or former Indian reserve land for the purposes of monitoring activity, land claims, and litigation

During fiscal year 2006-2007, the research staff verified legal title and acreage to determine the First Nation interest in 291 well entities, which involves confirming acreage in the spacing units to determine the First Nation interest. In this pooling process, many spacing units are 100% First Nation interest while others are partial interest. Where the First Nation lands are partial interest, they are pooled with other lands in the spacing unit based on acreage and a determination is made of the First Nation's share of production from the well, expressed as a percentage.

Summary of Negotiated Subsurface Permits Initiated during FY 2006-2007*

First Nation	Company	Area Disposed (Hectares)
Chipewyan Prairie First Nation (AB)	Basic Minerals & Land Corp.	1,626.00
Dene Tha' (AB)	Set Resources Inc.	5,632.00
Frog Lake (AB)	Frog Lake Energy Resources Corp.	2,449.74
Pikani Nation (AB)	Norwegian Petroleum Inc.	6,187.52
White Bear (SK)	Canadian Eagle Energy Ltd.	10,367.58
Total		26,262.84

Summary of Negotiated Subsurface Leases Initiated during FY 2006-2007

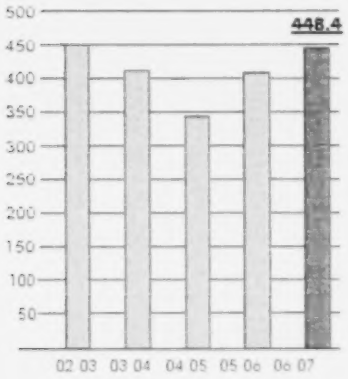
First Nation	Company	Area Disposed (hectares)
Alexander (AB)	Questerre Energy Corporation	719.96
Alexander (AB)	Wrangler West Energy Corp.	1,456.08
Big Island Lake Cree Nation (SK)	Nuvista Resources Ltd.	280.89
Blood (AB)	Bowood Energy Corp.	256.00
Cold Lake First Nations (AB)	Tri-Rez Oil & Gas Production Ltd.	128.00
Enoch Cree Nation #440 (AB)	Osaya Energy Ltd.	48.00
Frog Lake (AB)	Frog Lake Energy Resources Corp.	418.24
Horse Lake First Nation (AB)	Tusk Energy Corporation	4.33
Kehewin Cree Nation (AB)	Dyno Energy Ltd.	6.60
Kehewin Cree Nation (AB)	Kehewin Resources Ltd.	3,440.70
Louis Bull (AB)	Canadian Natural Resources Limited	0.42
Louis Bull (AB)	Culane Energy Corp.	384.00
O'Chiese (AB)	Northrock Resources Ltd.	256.00
Onion Lake (SK)	Pearl E&P Canada Ltd.	1,683.93
Paul (AB)	Redcliffe Energy Ltd.	256.00
Sunchild First Nation (AB)	Conocophillips Canada Resources Corp.	1,274.30
Total		10,613.45

** A total of 4,512.79 hectares of permit lands were converted to B leases during fiscal year 2006-2007.*

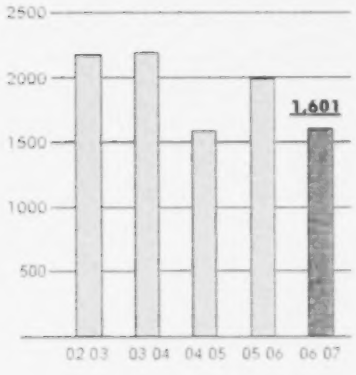
Production

The Production Unit includes three distinct groups: Engineering/Geology, Royalties and Informatics.

Oil Production from First Nation Lands (Thousand cubic metres)



Gas Sales Volumes from First Nation Lands (Million cubic metres)



Engineering/Geology Group Functions

- Dealing with volumetric compliance, production monitoring, economic evaluation and reservoir engineering
- Providing technical evaluation as part of the review and processing of leases at the end of their primary and succeeding terms

The Compliance activities include:

- Ensuring that production volumes are measured accurately and reported correctly and inspecting production equipment located on reserves to ensure operation in an environmentally sound manner
- Monitoring the drilling and status of wells around reserves to identify situations where First Nations oil and gas resources are subject to the risk of being drained and taking appropriate measures to lessen the risk of drainage
- Ensuring that all necessary documents required by the *Indian Oil and Gas Regulations, 1995* and which pertain to drilling, servicing and abandoning wells in which a First Nation has a royalty interest, are provided by permittees and lessees
- Reviewing technical applications of various kinds which companies submit to the provincial regulatory authorities and which could potentially impact First Nations reserve lands

During fiscal year 2006-2007, IOGC received 43 Notices of Application from the Alberta Energy and Utilities Board regarding drilling and operations. 14 of these applications pertained to areas on Indian interest lands and were reviewed by technical staff.

During the fiscal year, there were also 200 wells drilled affecting 25 Indian Reserves in Alberta and six in Saskatchewan. The wells included 102 oil, 70 gas, 9 abandoned and 19 cased. Many of the cased wells will be declared as either oil, gas or abandoned in subsequent months. In drilling these wells, the oil and gas industry invested $99.2 million and drilled a total of 200 kilometres of hole.

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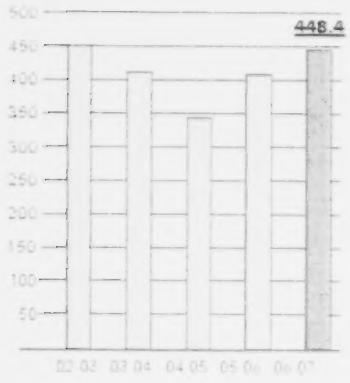

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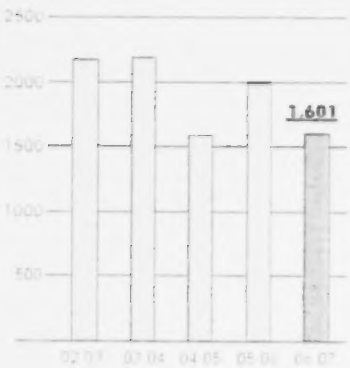

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The Reservoir Engineering activities include:

- Providing yearly revenue forecasts to First Nations and the regional offices for budgeting purposes
- Evaluating oil and gas leases for continuance
- Processing applications to abandon wells and to convert wells for water disposal, fluid injection or use as observation wells
- Providing advice to First Nations with respect to the economics presented by companies in support of their proposals for developing First Nations lands
- Estimating the recoverable volumes of oil and gas under Indian Reserves and maintaining current records of this information (known as the hydrocarbon resource inventory)

A total of 159 lease continuance applications were handled during fiscal year 2006-2007. About 58,000 hectares of land under these leases were continued while about 20,000 hectares were terminated. The terminated lands are available for re-lease.

During the fiscal year there were also 14 well abandonment approvals affecting 8 Indian Reserves. One geological and engineering study, for Cold Lake First Nation lands, was completed under contract during the year. Recoverable volume figures were updated in-house for several additional Indian reserves.

Royalty Group Functions

- Ensuring the accurate collection of royalties and subsequent reconciliation of accounts
- Reporting results of reconciliation process to First Nations and companies to resolve variances
- Monitoring royalties collection for Treaty Land Entitlement lands in Saskatchewan
- Ensuring all interest is accounted for from wells on production on Indian lands
- Verification of reported data to ensure accuracy and completeness
- Ensuring monthly electronic submissions of royalty statements and supporting documents from companies
- Performing assessments of monthly royalties due within defined timelines
- Ensuring receipt of annual gas cost allowance applications and approving allowance values to be deducted from royalties
- Pursuing resolution of royalty overpayments or underpayments in a timely manner
- Conducting field and facility inspections and examinations as required to ensure claim costs or deductions are accurate and fall within prescribed regulations and guidelines
- Identifying companies that need to be examined in the areas of pricing and gas cost allowance
- Familiarizing First Nations with royalty processes, including assisting in training of Pilot First Nations in monitoring royalties and developing management reports
- Training of company personnel in accurate royalty reporting

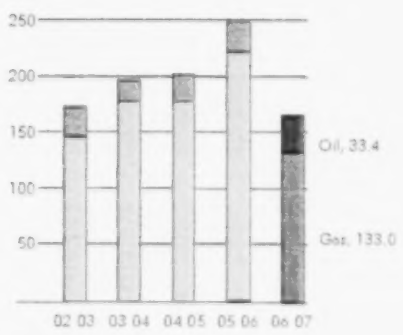
During fiscal year 2006-2007, royalty staff managed over 3000 royalty entities monthly and 500 gas cost allowance applications yearly.

Also during the fiscal year, there were 11 examinations on 12 Indian reserves completed and/or closed. $1.5 million was collected based on 14 examinations affecting seven Indian reserves and seven companies. Of the 14 examinations with collections, seven dealt with gas and/or product pricing, three with gas cost allowance, and four with oil pricing.

Informatics Group Functions

- Maintenance of the local area network and corporate data systems used by IOGC
- Provision of support for corporate software including finance, word processing, spreadsheet and graphics-based programs

Royalty Revenues from First Nation Lands ($ Millions)



More about gas royalties

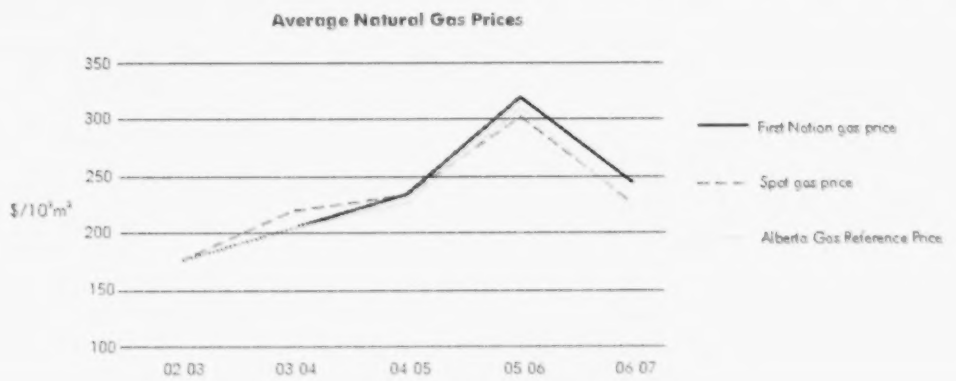
Royalties are calculated based on several factors, including the price, the production volume and the royalty structure. For most gas royalty volumes, price is the actual sales price, but some leases specify the use of a published index price. Natural gas prices are based on marketplace supply and demand.

The average royalty price for First Nations gas in 2006-2007 was $246 per thousand cubic metres, a 23% decrease from the previous year's average of $321 per thousand cubic metres, but still higher than the 2004-2005 average of $233 per thousand cubic metres. The 23% decrease is comparable to the 25% drop experienced in the Alberta Gas Reference Price and to the 28% drop experienced in the average gas spot price over the same period.

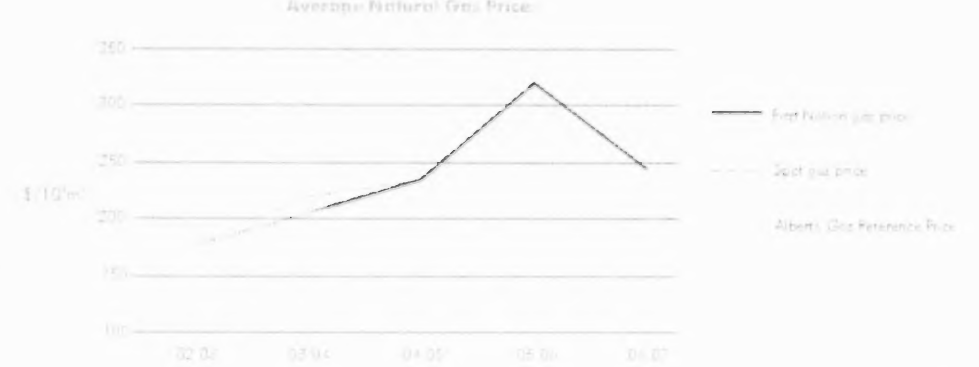
The fall in gas prices over the last year was due to lessened demand as a result of a warmer winter and increased supply in the form of high gas volumes available in storage at the beginning of the peak winter demand season plus resumption of supply as repairs were made in the Gulf of Mexico to damages caused by Hurricane Katrina in 2005.

Gas production from First Nation lands also decreased over the last year, from 1,996 to 1,601 million cubic metres in fiscal years 2005-2006 and 2006-2007 respectively, a drop of 20%. The decrease is mainly a natural market consequence of a combination of relatively lower gas prices and high drilling costs resulting in operators drilling fewer gas wells than in the previous few years. The high drilling costs were caused by high energy costs of the previous year and a continuing tight labour market. Additionally, new gas wells on average become smaller every year as the Western Canada Sedimentary Basin matures. Many new wells have low productivity and short lives.

Another key factor affecting First Nation royalties is the royalty structure and the resulting calculated royalty rates. Indian Oil and Gas Canada uses a variety of royalty structures, ranging from the royalty structure prescribed in the *Indian Oil and Gas Regulations, 1995* at a few aging leases, to other royalty structures such as ones based on provincial Crown royalties. The royalty structure prescribed in the *Indian Oil and Gas Regulations, 1995* was created in the 1970s and has very high royalty rates. It is not competitive with current provincial royalty structures and has not been for some time. Consequently, for the past decade and more, IOGC has issued virtually all agreements with lower and more competitive royalty structures. As the wells on older leases using the high Regulation royalty rates continue to experience natural declines in productivity over time, so the average overall royalty rate decreases. Additionally, oftentimes the royalty structures are price and/or production sensitive and can magnify the effect of price and production fluctuations.



More about gas royalties

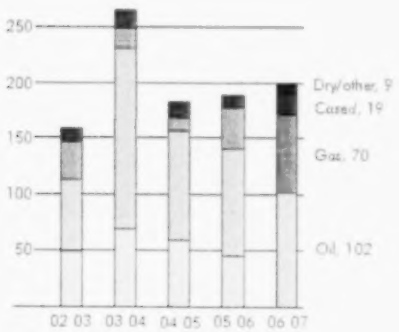


First Nation Interest Wells Drilled from April 2006 through March 2007*

Reserve	Number of Wells Drilled				
	Oil	Gas	Cased	D&A*	Total
Alexander #134, AB	1	3	0	0	4
Alexander Fox Creek #134A, AB	0	1	0	0	1
Alexis Whitecourt #232, AB	0	1	0	0	1
Beaver Lake #131, AB	0	1	0	0	1
Blood #148, AB	2	0	3	1	6
Buck Lake #133C, AB	1	0	0	0	1
Carry the Kettle #76-33, SK	0	31	0	0	31
Cold Lake #149, AB	5	0	0	0	5
Hay Lake #209, AB	1	0	1	0	2
Horse Lakes #152B, AB	0	0	0	1	1
Little Pine #116, SK	2	0	0	1	3
Loon Lake #235, AB	2	0	2	2	6
O'Chiese #203, AB	0	12	5	1	18
Onion Lake #119-1, SK	17	3	0	0	20
Pigeon Lake #138A, AB	0	1	1	0	2
Poundmaker #114, SK	1	0	0	0	1
Poundmaker #114-22, SK	2	0	0	0	2
Puskiakiwenin #122, AB	25	0	1	0	26
Samson #137, AB	0	1	0	1	2
Seekaskootch #119, SK	11	1	0	0	12
Sikisika #146, AB	0	7	0	0	7
Stoney #142,143,144, AB	0	1	0	0	1
Stony Plain #135, AB	2	1	5	0	8
Sunchild #202, AB	0	2	0	0	2
Swampy Lake #236, AB	3	0	0	0	3
Tsuu Tina #145, AB	0	2	0	1	3
Unipouheos #121, AB	16	0	0	1	17
Utikoomak #155, AB	1	0	0	0	1
Wabamun #133A, AB	0	2	0	0	2
Wabasca #166, AB	10	0	0	0	10
Wabasca #166D, AB	0	0	1	0	1
Total	**102**	**70**	**19**	**9**	**200**

* Dry and Abandoned

Wells Drilled on First Nation Lands



Indian Reserves with Oil and/or Gas Production During FY 2006-2007

Province	Treaty Area	Number of Indian Reserves
Alberta	6	23
	7	6
	8	16
British Columbia	8	3
Saskatchewan	2	2
	4	1
	6	15
Total		66

Planning and Corporate Services

Planning and Corporate Services (PCS) is headed by the Director, Planning and Corporate Services. PCS's key responsibilities include provision of essential corporate services that relate to administrative policy, human resources, finance, contracts and administration. The unit also manages and coordinates planning for the organization resulting in a Management Plan and acts as secretariat to support IOGC Co... management Board operations.

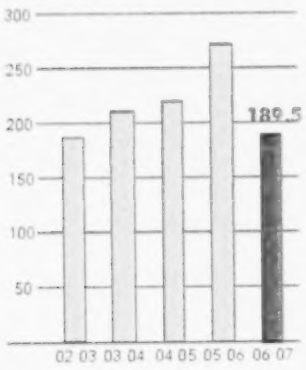
Human Resources Group Functions

- Administering human resource items related to IOGC's Separate Employer status
- Recruitment and staffing
- Staff relations
- Compensation and benefits
- Training and career development
- Classification

During the fiscal year, three policies pursuant to the *Public Service Employment Act* were developed and approved: Learning, Training & Deployment, Pre-retirement Transition and Notification. Training for managers on resolution and prevention of harassment in the workplace was conducted; there will be future information sessions on the same subject for employees. Extensive work was done on developing and implementing the new recruitment and retention strategy.

At year end IOGC had 71 staff on strength with a full-time complement of 77. 43 percent of employees were of Aboriginal descent.

Total Moneys Collected on Behalf of First Nations ($ millions)



Contracts and Administration Group Functions

- Contract administration
- Maintenance of central records
- Facility management
- Purchasing
- Security
- Handling of access to information requests
- Maintenance of a resource library

During fiscal year 2006-2007, IOGC entered into procurements for a total of $2.1 million for a variety of services and purchases to support required oil and gas operations.

First Nation Interest Wells Drilled from April 2006 through March 2007

Reserve	Number of Wells Drilled				
	Oil	Gas	Coalbed	D&A*	Total

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Finance Group Functions

- Providing corporate financial service to IOGC in the areas of accounting operations, financial systems, budget allocation, management variance reporting and funding to pilot First Nations for oil and gas initiatives
- Administering the decentralized IOGC budget
- Collecting and processing bonus, lease and royalty payments to First Nations trust accounts through IOGC's Resource Information Management System (RIMS) into the department's Trust Fund Management System.

During the fiscal year, $189.5 million was collected for First Nations and $6.1 million for the Province of Saskatchewan pursuant to article 5.08 of the Saskatchewan Treaty Land Entitlement Framework Agreement.

Extensive work was done on the key initiative Automation of Interest with Accounts Receivable System.

Effects of the Tight Labour Market

The high activity in the oil and gas industry has resulted in an increasingly tight labour market in Alberta. Many companies, especially those in the oil and gas sector, have combated the increasing shortage of skilled workers with increased wages, benefits and perquisites to attract workers from other companies, other sectors and other provinces and countries.

Indian Oil and Gas Canada has not been immune to this environment and faced significant challenges in recruiting technical and professional staff to fill vacant positions, especially engineers, landmen/negotiators, contracts analysts and environmental specialists. These positions continue to be in high demand and are expected to remain so in the foreseeable future.

Indian Oil and Gas Canada continues to address these labour market challenges through development and implementation of new recruitment and retention practices. IOGC has broadened its area of competition nationally for intermediate and senior levels, is seeking to recruit new graduates and work with them to develop their skills, and is pursuing new ways to retain staff once they join IOGC. IOGC is also continuing to pursue new ways of doing business to be more effective and to help address workload and labour challenges.

Finance Group Functions

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Extensive work was done on the key initiative Automation of Interest with Accounts Receivable System.

Effects of the Tight Labour Market

The high activity in the oil and gas industry has resulted in an increasingly tight labour market in Alberta. Many companies, especially those in the oil and gas sector, have combated the increasing shortage of skilled workers with increased wages, benefits and perquisites to attract workers from other companies, other sectors and other provinces and countries.

Indian Oil and Gas Canada has not been immune to this environment and faced significant challenges in recruiting technical and professional staff to fill vacant positions, especially engineers, landmen/negotiators, contracts analysts and environmental specialists. These positions continue to be in high demand and are expected to remain so in the foreseeable future.

Indian Oil and Gas Canada continues to address these labour market challenges through development and implementation of new recruitment and retention practices. IOGC has broadened its area of competition nationally for intermediate and senior levels, is seeking to recruit new graduates and work with them to develop their skills, and is pursuing new ways to retain staff once they join IOGC. IOGC is also continuing to pursue new ways of doing business to be more effective and to help address workload and labour challenges.

Financial Operations 2006-2007

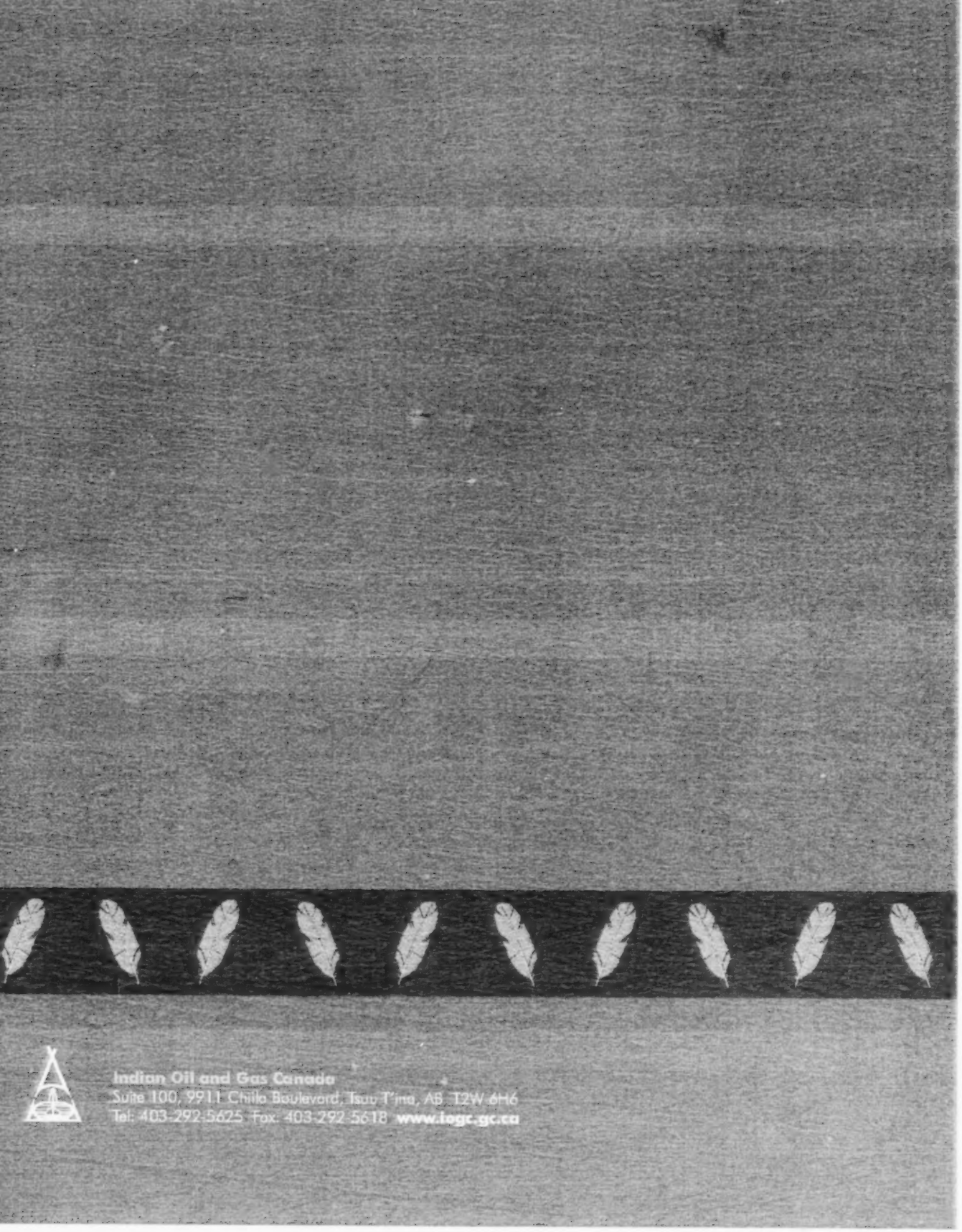
Funding - Expenses, Contributions & Transfers			$10,418,448
Expenses			
Salaries		$5,126,275	
Operations & Maintenance			
Inventory Management	140,005		
Environment	32,200		
Negotiations (Disposition & Amendment)	57,060		
Agreement Management	59,997		
Royalty	929,806		
Compliance	728,665		
Corporate Management	698,769		
Informatics	198,467		
Direct Operations Support	418,456		
Policy Management	114,223		
Legislative/Regulatory	0		
Litigation	160		
IOGC Board	2,478		
Total Operations & Maintenance		$3,380,287	
Contributions & Transfers			
IRC Partnership	300,000		
IOGC Board	92,000		
First Nations Oil & Gas Management Initiative	937,000		
Other Contributions & Transfers	384,000		
Total Contributions & Transfers		$1,713,000	
Total Expenses, Contributions & Transfers			$10,219,562
Surplus/Deficit			$198,886

Revenues Collected on Behalf of First Nations		
Royalties	$166,310,630	
Bonus	$8,924,166	
Compensation and Rentals	$14,274,555	
Total Revenues Collected on Behalf of First Nations		$189,509,351

Effects of the Tight Labour Market

Financial Operations 2006-2007

Funding – Expenses, Contributions & Transfers			$10,418,448
Expenses			
Salaries		$5,126,275	
Operations & Maintenance			
Inventory Management	140,805		
Environment	82,900		
Negotiations (Disposition & Acquisition)	57,060		
Agreement Management	59,997		
Royalty	929,806		
Compliance	728,665		
Corporate Management	698,765		
Information	198,467		
Direct Operational Support	418,456		
Policy Management	114,223		
Legislative/Regulatory	0		
Litigation	760		
IOGC Board	6,428		
Total Operations & Maintenance		$3,380,287	
Contributions & Transfers			
IRC Partnership	200,000		
IOGC Board	92,000		
First Nations Oil & Gas Management Initiative	937,800		
Other Contributions & Transfers	384,000		
Total Contributions & Transfers		$1,713,800	
Total Expenses, Contributions & Transfers			$10,219,362
Surplus/Deficit			$199,086
Revenues Collected on Behalf of First Nations			
Royalties		$166,310,630	
Bonus		$8,924,166	
Compensation and Rentals		$14,274,555	
Total Revenues Collected on Behalf of First Nations			$189,509,351



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